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recommendations of any Federal-State Joint Board convened to provide recommendations with respect to the definition of a service area served by a rural telephone company.

(2) The Commission shall issue a Public Notice of any such petition within fourteen (14) days of its receipt.

(3) The Commission may initiate a proceeding to consider the petition within ninety (90) days of the release date of the Public Notice.

(i) If the Commission initiates a proceeding to consider the petition, the proposed definition shall not take effect until both the state commission and the Commission agree upon the definition of a rural service area, in accordance with paragraph (b) of this section and section 214(e)(5) of the Act.

(ii) If the Commission does not act on the petition within ninety (90) days of the release date of the Public Notice, the definition proposed by the state commission will be deemed approved by the Commission and shall take effect in accordance with state procedures.

(d) The Commission may, on its own motion, initiate a proceeding to consider a definition of a service area served by a rural telephone company that is different from that company's study area. If it proposes such different definition, the Commission shall seek the agreement of the state commission according to this paragraph.

(1) The Commission shall submit a petition to the state commission according to that state commission's procedures. The petition submitted to the relevant state commission shall contain:

(i) The definition proposed by the Commission; and

(ii) The Commission's decision presenting its reasons for adopting the proposed definition, including an analysis that takes into account the recommendations of any Federal-State Joint Board convened to provide recommendations with respect to the definition of a service area served by a rural telephone company.

(2) The Commission's proposed definition shall not take effect until both the state commission and the Commission agree upon the definition of a rural service area, in accordance with para-

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graph (b) of this section and section 214(e)(5) of the Act.

(e) The Commission delegates its authority under paragraphs (c) and (d) of this section to the Chief, Common Carrier Bureau.

Subpart D—Universal Service Support for High Cost Areas

§ 54.301 Local switching support.

(a) *Calculation of local switching support.* (1) Beginning January 1, 1998, an incumbent local exchange carrier that has been designated an eligible telecommunications carrier and that serves a study area with 50,000 or fewer access lines shall receive support for local switching costs using the following formula: the carrier's projected annual unseparated local switching revenue requirement, calculated pursuant to paragraph (d) of this section, shall be multiplied by the local switching support factor. For purposes of this section, local switching costs shall be defined as Category 3 local switching costs under part 36 of this chapter.

(2) *Local switching support factor.* (i) The local switching support factor shall be defined as the difference between the 1996 weighted interstate DEM factor, calculated pursuant to § 36.125(f) of this chapter, and the 1996 unweighted interstate DEM factor.

(ii) If the number of a study area's access lines increases such that, under § 36.125(f) of this chapter, the weighted interstate DEM factor for 1997 or any successive year would be reduced, that lower weighted interstate DEM factor shall be applied to the carrier's 1996 unweighted interstate DEM factor to derive a new local switching support factor.

(3) Beginning January 1, 1998, the sum of the unweighted interstate DEM factor, as defined in § 36.125(a)(5) of this chapter, and the local switching support factor shall not exceed 0.85. If the sum of those two factors would exceed 0.85, the local switching support factor shall be reduced to a level that would reduce the sum of the factors to 0.85.

(b) *Submission of data to the Administrator.* Each incumbent local exchange carrier that has been designated an eligible telecommunications carrier and that serves a study area with 50,000 or

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fewer access lines shall, for each study area, provide the Administrator with the projected total unseparated dollar amount assigned to each account listed below for the calendar year following each filing. This information must be provided to the Administrator no later

than October 1 of each year. The Administrator shall use this information to calculate the projected annual unseparated local switching revenue requirement pursuant to paragraph (d) of this section.

I

Telecommunications Plant in Service (TPIS)	Account 2001
Telecommunications Plant—Other	Accounts 2002, 2003, 2005
General Support Assets	Account 2110
Central Office Assets	Accounts 2210, 2220, 2230
Central Office—switching, Category 3 (local switching)	Account 2210, Category 3
Information Origination/Termination Assets	Account 2310
Cable and Wire Facilities Assets	Account 2410
Amortizable Tangible Assets	Account 2680
Intangibles	Account 2690

II

Rural Telephone Bank (RTB) Stock	Included in Account 1402
Materials and Supplies	Account 1220.1
Cash Working Capital	Defined in 47 CFR 65.820(d)

III

Accumulated Depreciation	Account 3100
Accumulated Amortization	Accounts 3400, 3500, 3600
Net Deferred Operating Income Taxes	Accounts 4100, 4340
Network Support Expenses	Account 6110
General Support Expenses	Account 6120
Central Office Switching, Operator Systems, and Central Office Transmission Expenses	Accounts 6210, 6220, 6230
Information Origination/Termination Expenses	Account 6310
Cable and Wire Facilities Expenses	Account 6410
Other Property, Plant and Equipment Expenses	Account 6510
Network Operations Expenses	Account 6530
Access Expense	Account 6540
Depreciation and Amortization Expense	Account 6560
Marketing Expense	Account 6610
Services Expense	Account 6620
Corporate Operations Expense	Accounts 6710, 6720
Operating Taxes	Accounts 7230, 7240
Federal Investment Tax Credits	Accounts 7210
Provision for Deferred Operating Income Taxes—Net	Account 7250
Allowance for Funds Used During Construction	Account 7340
Charitable Contributions	Included in Account 7370
Interest and Related Items	Account 7500

IV

Other Non-Current Assets	Account 1410
Deferred Maintenance and Retirements	Account 1438
Deferred Charges	Account 1439
Other Jurisdictional Assets and Liabilities	Accounts 1500, 4370
Customer Deposits	Account 4040
Other Long-Term Liabilities	Account 4310

(c) *Allocation of accounts to switching.* The Administrator shall allocate to local switching, the accounts reported pursuant to paragraph (b) of this section as prescribed in this paragraph.

(1) General Support Assets (Account 2110); Amortizable Tangible Assets (Ac-

count 2680); Intangibles (Account 2690); and General Support Expenses (Account 6120) shall be allocated according to the following factor:

Account 2210 Category+3 (Account 2210 + Account 2220 + Account 2230 + Account 2310 + Account 2410).

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(2) Telecommunications Plant—Other (Accounts 2002, 2003, 2005); Rural Telephone Bank (RTB) Stock (included in Account 1402); Materials and Supplies (Account 1220.1); Cash Working Capital (§65.820(d) of this chapter); Accumulated Amortization (Accounts 3400, 3500, 3600); Net Deferred Operating Income Taxes (Accounts 4100, 4340); Network Support Expenses (Account 6110); Other Property, Plant and Equipment Expenses (Account 6510); Network Operations Expenses (Account 6530); Marketing Expense (Account 6610); Services Expense (Account 6620); Operating Taxes (Accounts 7230, 7240); Federal Investment Tax Credits (Accounts 7210); Provision for Deferred Operating Income Taxes—Net (Account 7250); Interest and Related Items (Account 7500); Allowance for Funds Used During Construction (Account 7340); Charitable Contributions (included in Account 7370); Other Non-current Assets (Account 1410); Other Jurisdictional Assets and Liabilities (Accounts 1500, 4370); Customer Deposits (Account 4040); Other Long-term Liabilities (Account 4310); and Deferred Maintenance and Retirements (Account 1438) shall be allocated according to the following factor:

Account 2210 Category 3 ÷ Account 2001.

(3) Accumulated Depreciation for Central Office—switching (Account 3100 associated with Account 2210) and Depreciation and Amortization Expense for Central Office—switching (Account 6560 associated with Account 2210) shall be allocated according to the following factor:

Account 2210 Category 3 ÷ Account 2210.

(4) Accumulated Depreciation for General Support Assets (Account 3100 associated with Account 2110) and Depreciation and Amortization Expense for General Support Assets (Account 6560 associated with Account 2110) shall be allocated according to the following factor:

Account 2210 Category 3 ÷ Account 2001.

(5) Corporate Operations Expenses (Accounts 6710, 6720) shall be allocated according to the following factor:

$$\frac{[(\text{Account } 2210 \text{ Category } 3 \div (\text{Account } 2210 + \text{Account } 2220 + \text{Account } 2230))] \times (\text{Account } 6210 + \text{Account } 6220 + \text{Account } 6230)]}{[(\text{Account } 6530 + \text{Account } 6610 + \text{Account } 6620) \times (\text{Account } 2210 \text{ Category } 3 \div (\text{Account } 2210 + \text{Account } 2220 + \text{Account } 2230))] \div (\text{Account } 6210 + \text{Account } 6220 + \text{Account } 6230) + (\text{Account } 6530 + \text{Account } 6610 + \text{Account } 6620)}$$

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$$6530 + \text{Account } 6610 + \text{Account } 6620) \times (\text{Account } 2210 \text{ Category } 3 \div (\text{Account } 2210 + \text{Account } 2220 + \text{Account } 2230))] \div (\text{Account } 6210 + \text{Account } 6220 + \text{Account } 6230 + \text{Account } 6310 + \text{Account } 6410 + \text{Account } 6530 + \text{Account } 6610 + \text{Account } 6620).$$

(6) Central Office Switching, Operator Systems, and Central Office Transmission Expenses (Account 6210, Account 6220, Account 6230) shall be allocated according to the following factor:

Account 2210 Category 3 ÷ (Accounts 2210 + 2220 + 2230).

(d) *Calculation of the projected annual unseparated local switching revenue requirement.* The Administrator shall calculate the projected annual unseparated local switching revenue requirement by summing the components listed in this paragraph.

(1) Return on Investment attributable to COE Category 3 shall be obtained by multiplying the average projected unseparated local switching net investment by the authorized interstate rate of return. Projected unseparated local switching net investment shall be calculated as of each December 31 by deducting the accumulated reserves, deferrals and customer deposits attributable to the COE Category 3 investment from the gross investment attributable to COE Category 3. The average projected unseparated local switching net investment shall be calculated by summing the projected unseparated local switching net investment as of December 31 of the calendar year following the filing year and such investment as of December 31 of the filing year and dividing by 2.

(2) Depreciation expense attributable to COE Category 3 investment, allocated pursuant to paragraph (c) of this section.

(3) All expenses, excluding depreciation expense, collected in paragraph (b) of this section, allocated pursuant to paragraph (c) of this section.

(4) Federal income tax attributable to COE Category 3 shall be calculated using the following formula; the accounts listed shall be allocated pursuant to paragraph (c) of this section:

$$[\text{Return on Investment attributable to COE Category } 3 - \text{Account } 7340 -$$

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Account 7500—Account 7210)] ×
[Federal Income Tax Rate ÷ (1 -
Federal Income Tax Rate)].

(e) *True-up adjustment*—(1) *Submission of true-up data.* Each incumbent local exchange carrier that has been designated an eligible telecommunications carrier and that serves a study area with 50,000 or fewer access lines shall, for each study area, provide the Administrator with the historical total unseparated dollar amount assigned to each account listed in paragraph (b) of this section for each calendar year no later than 12 months after the end of such calendar year.

(2) *Calculation of true-up adjustment.*

(i) The Administrator shall calculate the historical annual unseparated local switching revenue requirement for each carrier when historical data for each calendar year are submitted.

(ii) The Administrator shall calculate each carrier's local switching support payment, calculated pursuant to § 54.301(a), using its historical annual unseparated local switching revenue requirement.

(iii) For each carrier receiving local switching support, the Administrator shall calculate the difference between the support payment calculated pursuant to paragraph (e)(2)(ii) of this section and its support payment calculated using its projected annual unseparated local switching revenue requirement.

(iv) The Administrator shall adjust each carrier's local switching support payment by the difference calculated in paragraph (e)(2)(iii) of this section no later than 15 months after the end of the calendar year for which historical data are submitted.

(f) *Calculation of the local switching revenue requirement for average schedule companies.* (1) The local switching revenue requirement for average schedule companies, as defined in § 69.605(c) of this chapter, shall be calculated in accordance with a formula approved or modified by the Commission. The Administrator shall submit to the Commission and the Common Carrier Bureau for review and approval a formula that simulates the disbursements that would be received pursuant to this section by a company that is representative of average schedule companies.

For each annual period, the Administrator shall submit the formula, any proposed revisions of such formula, or a certification that no revisions to the formula are warranted on or before December 31 of each year.

(2) The Commission delegates its authority to review, modify, and approve the formula submitted by the Administrator pursuant to this paragraph to the Chief, Common Carrier Bureau.

[63 FR 2126, Jan. 13, 1998; 63 FR 33585, June 19, 1998]

§ 54.303 Long term support.

(a) Beginning January 1, 1998, an eligible telecommunications carrier that participates in the association Common Line pool shall receive Long Term Support.

(b) Long Term Support shall be calculated as prescribed in this paragraph.

(1) To calculate the unadjusted base-level of Long Term Support for 1998, the Administrator shall calculate the difference between the projected Common Line revenue requirement of association Common Line tariff participants projected to be recovered in 1997 and the sum of end user common line charges and the 1997 projected revenue recovered by the association Carrier Common Line charge as calculated pursuant to § 69.105(b)(2) of this chapter.

(2) To calculate Long Term Support for calendar year 1998, the Administrator shall adjust the base-level of Long Term Support calculated in paragraph (b)(1) of this section to reflect the annual percentage change in the actual nationwide average unseparated loop cost per working loop as filed by the Administrator in the previous calendar year, pursuant to § 36.622 of this chapter.

(3) To calculate Long Term Support for calendar year 1999, the Administrator shall adjust the level of support calculated in paragraph (b)(2) of this section to reflect the annual percentage change in the actual nationwide average unseparated loop cost per working loop as filed by the Administrator in the previous calendar year, pursuant to § 36.622 of this chapter.

(4) Beginning January 1, 2000, the Administrator shall calculate Long Term